

AUDITORS' REPORT

德勤·關黃陳方會計師行

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**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF WAH LEE RESOURCES HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 15 to 43 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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BASIS OF OPINION (continued)

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. As explained by the executive directors appointed on 10 December 2001 (the "Directors") in note 3(b) to the financial statements, the Directors have found that accounting records have been mislaid and accordingly have encountered the limitations referred to below in preparing the financial statements:
 - (i) Turnover includes recorded sales of approximately HK\$1,232,400,000 in respect of which the Directors were unable to locate the supporting delivery documentation. Accordingly, the Directors have been unable to satisfy themselves as to whether these sales are fairly stated in the financial statements.
 - (ii) Loss for the year has been arrived at after charging/crediting the following amounts in respect of which the directors were unable to locate third party supporting documentation:
 - cost of sales of approximately HK\$1,177,000,000;
 - other revenue of approximately HK\$7,000,000;
 - administrative expenses of approximately HK\$48,600,000;
 - finance costs of approximately HK\$29,100,000; and
 - minority interests of approximately HK\$5,400,000.

Accordingly, the Directors have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

2. As explained by the Directors in note 3(c) to the financial statements, the Directors were unable to obtain sufficient evidence to satisfy themselves as to whether:
 - debts receivable of approximately HK\$330,400,000 recorded in the books of account are recoverable; and
 - the Group has title to fixed assets recorded in the books of account of approximately HK\$43,200,000.

In respect of the above amounts, provision has been made for the debts and the fixed assets have been written off. However, in view of the lack of evidence available, the Directors have been unable to satisfy themselves regarding the appropriateness of this provision and write off.

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BASIS OF OPINION (continued)

3. As explained by the Directors in note 3(d) to the financial statements, in the absence of any fixed assets register of the Group at 30 June 1999, the Directors were unable to satisfy themselves as to the existence of fixed assets of approximately HK\$31,700,000 at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether fixed assets were fairly stated in the financial statements.
4. As explained by the Directors in note 3(e) to the financial statements, the Directors were unable to obtain sufficient evidence in respect of bank balances, investment properties and prepayments, deposits and other receivables of approximately HK\$36,300,000, HK\$34,700,000 and HK\$12,000,000, respectively, at 30 June 1999 so as to satisfy themselves as to whether these amounts were fairly stated in the financial statements.
5. As explained by the Directors in note 3(f) to the financial statements, the Group did not carry out physical count of inventories at 30 June 1999 and, accordingly, the Directors were unable to satisfy themselves as to the existence of inventories of approximately HK\$39,200,000 at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether inventories were fairly stated in the financial statements.
6. As explained by the Directors in note 3(g) to the financial statements, the Directors were unable to satisfy themselves as to the completeness of accounts payables and accrued charges, obligations under finance leases, taxation and borrowings of approximately HK\$74,800,000, HK\$600,000, HK\$10,400,000 and HK\$267,400,000, respectively, as at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether these amounts were fairly stated in the financial statements.
7. As explained by the Directors in note 3(h) to the financial statements, the financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Directors are unable to represent that all transactions entered into by the Company and its subsidiaries are reflected in the books and records and in the financial statements.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 7 above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Company and of the Group as at 30 June 1999 and the loss of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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QUALIFICATIONS ARISING FROM DISAGREEMENTS ABOUT THE EXTENT OF DISCLOSURE

As explained by the Directors in note 3(i) to the financial statements, because certain accounting records have been mislaid the following required disclosures have not been made in the financial statements:

- (1) Details of related party disclosures as required by Statement of Standard Accounting Practice ("SSAP") 20 "Related Party Disclosures";
- (2) Details of deferred taxation disclosures as required by SSAP 12 "Accounting for Deferred Tax";
- (3) Details of diluted loss per share as required by SSAP 5 (Revised) "Earnings Per Share";
- (4) Details of directors' and employees' emoluments, pension schemes and analysis of borrowings as required by Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and
- (5) Details of analysis of finance costs, share option scheme, pledge of assets, contingencies and commitments as required by the Companies Ordinance.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 30 June 1999 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of accounts have been kept.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 8 March 2002